# CHAPTER II

## LITERATURE REVIEW

Marketing is seen as the task of finding and stimulating buyers for the firm's output. It involves product development, pricing, distribution, and communication; and in the more progressive firms, continuous attention to the changing needs of customers and the development of new products, with product modifications and services to meet these needs (Kotler and Armstrong, 1994).

According to Enis and Cox (1991), marketing is that phase of human activity that produces economic want-satisfaction by matching consumers' needs and the resources of business firms. Consumer-satisfaction is the result of its marketing strategy and marketing philosophy should be consumer oriented. As stated by Cafarelli (1980), that most key judgments about the ultimate new products to be marketed will either be made directly by consumer or be heavily influenced by what consumers' wants and needs.

The variations in new products can be identified and classified according to how much new learning is required from the consumer. This classification is consistent with the marketing philosophy that satisfaction of consumers' wants and needs must be one of the prime justifications for a company's existence (Blattberg, Buesing and Sen, 1980).

According to Copper (1993), a new product can be defined in two senses:

(a) New to the company, in the sense that the firm has never made or sold this type of product before, but other firms might have.

(b) New to the market or "innovative": the product is the first of its kind in the market.

Booz, Allen and Hamilton (1982) identified six categories of new products in terms of their newness to the company and to the marketplace:

(a) New-to-the-world products: New products that create an entirely new market (10% of total new introductions).

(b) New product lines: New products that, for the first time, allow a company to enter an established market (20% of total).

(c) Additions to existing product lines: New products that supplement a company's established product line (26% of total).

(d) Improvements in/revisions to existing products: New products that provide improved performance or greater perceived value, and replace existing products (26% of total).

(e) Repositionings: Existing products that are targeted to new markets or market segments (7% of total).

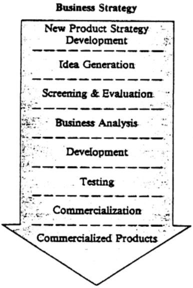
(f) Cost reductions: New products that provide similar performance at lower cost (11% of total).

It seems that many studies on marketing of new products or launching of new products do not define the word launch. It is common that the word launch is used to describe one aspect of the marketing plan or activities of new product. The launch is considered as a subcomponent of the total marketing plan, usually at the end as communication or implementation. According to Holt (1977), launch is defined as a selection of activities and means for commercialization of a product as well as the duration and intensity of the campaign.

New product launch should not be approached on an ad hoc basis. A step by step plan or process should be developed (Cafarelli, 1980).The process is to link corporate objectives to the new product launch, and provide direction for new product progress. According to Morley (1968), companies that have successfully launched new products are more likely to have a formal new product process in place.

Booz, Allen and Hamilton (1982) have proposed a seven-step new product process (Figure 2). The latest studies by Cooper (1993) on how firms should develop and launch new products revealed that many commonly recommended steps, stages, activities and practices can be classified

Figure 2: New Product Process in the 1980s




Source: Booz, Allen and Hamilton, New Product Management for the 1980's, New York: Booz, Allen and Hamilton, 1982. p. 281.

Table 2: Thirteen Key Activities in the New Product Process

| | |
|---|---|
| Initial screening | The first decision to go ahead with the project; the initial commitment of resources (people and money). |
| Preliminary market assesment | The initial market study: a "quick and dirty" assessment of the marketplace, possible market acceptance, and competitive situation; largely nonscientific and relying principally on in-house sources. |
| Preliminary technical assessment | An initial technical appraisal, addressing questions such as "can the product be developed? how? can it be manufactured? etc."; based largely on discussions, in-house sources, and some literature work. |
| Detailed market study | Marketing research: detailed market studies such as user needs-and-wants studies, concept tests, positioning studies and competitive analyses; involves considerable field work and interviews with customers. |
| Predevelopment business and financial analysis | The decision to go to a full development program; involves, for example, a financial analysis, risk assessment, and a qualitative business assessment, looking at market attractiveness, competitive advantage, etc. |
| Product development | The actual development of the physical product. |
| In-house product tests | Testing the product in-house under controlled or laboratory conditions; alpha tests. |
| Customer product tests | Testing the product with the customer; field trials, beta tests, or preference tests: giving the product to customers and letting them try it under live field conditions. |
| Trial sell | A trial sell or test market of the product: an attempt to sell the product to a limited number of customers or in a limited geographic area. |
| Trial production | A limited, trial, or batch production run, designed to prove production facilities. |
| Precommercialization business analysis | The decision to commercialize: a final business and financial analysis prior to launch. |
| Production start-up | Start-up of full-scale or commercial production. |
| Market launch | The full market launch of the product: the implementation of the marketing plan. |

Source: Cooper R.G. (1993), Winning at New Products, New York: Addison-Wesley. p. 29.

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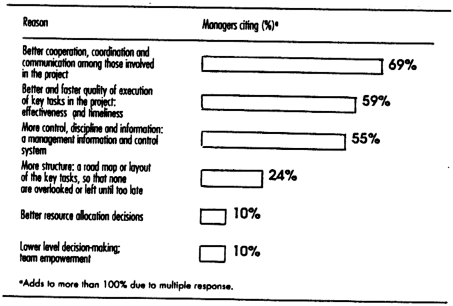
into a thirteen-step of new product process (Table 2). The actual launch or the market launch is one of the final stages in the new product process. It is described as the implementation of the marketing plan. This is not to imply that a launching plan should be the final step of the new product process. In fact it should be integrated from the beginning of new product process.

According to Cooper (1993), the most often cited motivation or rationale that underlay the implementation of a new product process was the desire for better cooperation, communication and coordination among people directly and indirectly involved in a new product launch (Figure 3).

Figure 3: Motivations for Implementing a New Product Process




Source: Cooper R.G. (1993), Winning at New Products, New York: Addison-Wesley. p. 263.

The new product process charts the marketing plan for the firm's entire new product launch. It provides the direction for the company's new product efforts, and it is the essential link between product development effort and firm's corporate strategy (Cooper, 1993).

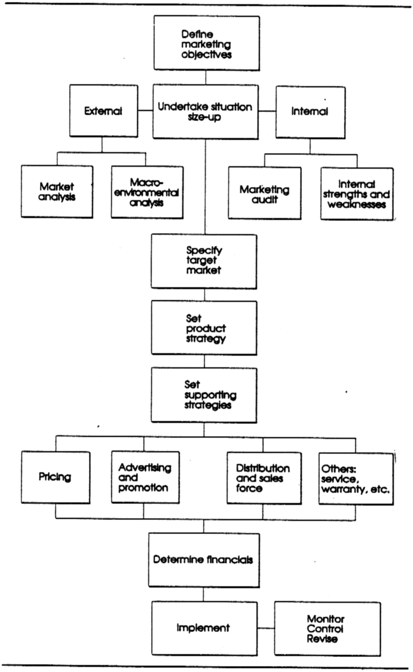
The marketing plan is defined as a plan of action for a new product introduction or launch which outlines or summarizes the objectives, strategies and programs of the new product launch (Figure 4).

The development and integration of a full marketing plan should occur simultaneously and be integrated with product development or new product process (Booz, Allen and Hamilton, 1982). A formal marketing plan should be in place and integrated long before the actual new product is ready for launch. The development of a marketing plan should be an integral part of the new product process.

Integrating the marketing plan with the new product process leads to a strong customer focused and market-driven new product launch. A thorough understanding of customers' needs and wants, the competitive situation and the nature of the market is an essential component of new product success (Boscheck, 1995). A strong market orientation in new product processes is a great success, according to a study conducted by Cooper (Figure 5). The results are clear with the mean score being 4.25 out of 5.

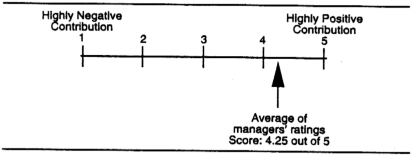
The specific performance results achieved by implementing new product processes are also impressive with improved product success rate, higher customer satisfaction, meeting time, quality and cost objectives (Figure 6).

Figure 4: Developing the Marketing Plan for New Product Launch



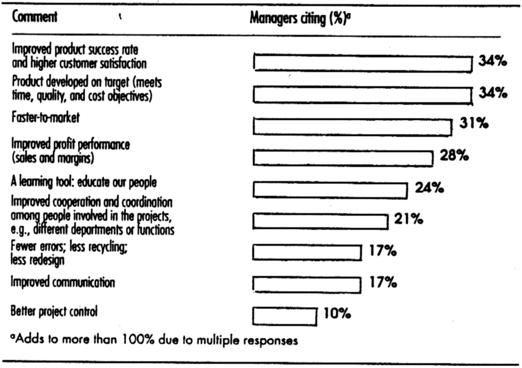

Source: Cooper R.G. (1993), Winning at New Products, New York: Addison-Wesley, p. 232.

Figure 5: Overall Contribution of Formal New Product Processes




Source: Cooper R.G. (1993), Winning at New Products, New York: Addison-Wesley. p. 256.

Figure 6: Impact of Formal New Product Process




Source: Cooper R.G. (1993), Winning at New Products, New York: Addison-Wesley, p. 257.

A number of companies have indeed implemented formal new product processes integrated with customer oriented marketing plan have proven to improve efficiency and effectiveness of new product launch in general. There are Procter & Gamble, ICI (UK), Corning and Polaroid (Cooper, 1993).

Specific examples of new product launches that are guided by market or consumer oriented marketing plan are not available from the review of the past research. It is incomplete to attribute the success or failure of a specific new product launch merely base on marketing plan itself. Many factors and marketing activities are involved that must be integrated and well executed to ensure the success of a new product launch. A marketing plan that works well for a new product launch not necessarily does so for another new product due to the variation of internal characteristic of every organisation and dynamism of external environment. Furthermore the success or failure of a new product is more than just the product launch itself. Its also depend on the follow up marketing activities and affords after the launch and other factors that will be highlighted in the next section.

## Why New Products Fail

An estimated 46 percent of the resources that firms spend on the conception, development, and launch of new products are spent on products that either fail commercially in the marketplace, or never make it to market (Booz, Allen & Hamilton, 1982).

According to Cooper (1993) there are six problems or pitfalls that result in new product failures in general:

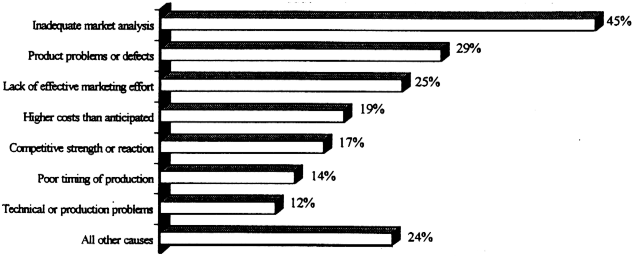
(a) Lack of a market orientation
(b) Poor quality of execution
(c) Moving too quickly
(d) Not enough market analysis
(e) Lack of product differentiation
(f) No focus, too many projects, and a lack of resources

The management surveys by Hopkins and Bailey (1971) have identified three main failure reasons:

(a) Poor Marketing Research
(b) Technical Problems
(c) Bad Timing

In another study by the Conference Board (1971) into why new products fail, a similar set of reasons was identified (Figure 7). Inadequate market analysis emerged as the number one culprit, followed by product problems or defects.

Figure 7: Factors of New Products Failure




Source: D.S. Hopkins and E.L. Bailey, "New Product Pressures," Conference Board Record 8 (1971); p. 16.

## Keys to New Product Success

Identifying what makes a new product a winner is considerably more difficult then merely pinpointing reasons for failure. A number of studies have attempted to identify the key factors to new product success in general.

According to Wizenberg (1986) the essential ingredient for new product success is continuity. New product success is a marathon not a relay race. Nothing threatens the success of a new product as much as making changes in the team mid-stream. From the very inception of the idea through its development, testing, and marketing - and right through the first years of the product's life - the same team must be in place. "Like a baby, a new product requires the emotional commitment of the parents who conceived it to bring it to birth and raise it until it is able to walk by itself."

A study in the United States conducted by Rubenstein (1976) found that keys to new product success were the existence of a product champion, marketing factors (such as need recognition), superior data collection and analysis, planned approaches to venture management, and strong internal communications.

The study by Calantone, Benedetto and Haggblom (1995) at high-tech electronic firms and new products revealed that winning products had the following factors in common:

(a) The new product had a high performance-to-cost ratio, result of an in-depth understanding of the customers and the marketplace,

(b) The market launch was proficient and backed by strong resources,

(c) The product yielded a high contribution margin,

(d) The R&D process was well planned and executed,

(e) The create, make and sell functions were well interfaced and coordinated,

(f) The product was introduced into the market early, that is, ahead of competition,

(g) The product was existed by marketing and technological synergy; and

(h) Top management support existed for the project, from development through to launch.

Successful new product management depends upon an accurate definition of the products and markets of a company, that is, upon an adherence to the new concept of marketing. The latter is essentially a new orientation of managerial decision making, reflected in a shift of emphasis from the needs of the firm to the needs of the consumer. Careful investigation and satisfaction of consumers' wants thus mark new product management under the new marketing concept, aimed at finding products for markets rather than markets for products.

An impact on success included marketing and managerial synergy, a good fit between the needs of the project and the firm's marketing and managerial resources; positive value-in-use for the customer; dynamic market situations where customer needs in a state of flux, large, high-need growth markets; and finally a strong marketing communications, sales force, and pre plus post launch effort.